

Political Risk Assessment of Indofood during Global Wheat Crisis

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Abstract

The conflict between Russia and Ukraine has propelled global wheat prices to their highest peak compared to the 2008 food crisis. Apart from jeopardizing the sustainability of various nations reliant on imported commodities, this situation also affects instant noodle companies such as PT. Indofood CBP. This research employs a qualitative method utilizing a Political and Security Risk Assessment approach, focusing on political risks stemming from geopolitical issues (event risk) that influence the policies and actions of stakeholders in Indonesia, particularly the government (dynamic risk), thereby impacting the activities of PT Indofood CBP's Noodle Division. The research findings indicate that performance sectors such as supply risk and the company's operational activities have been significantly affected by the increase in wheat prices. It is also revealed that the company's strategy involves raising the prices of instant noodle products, alongside other strategies.

Keywords:	Geopolitic; Noodle Division Indofood CBP; Political Risk Assessment; Rusia-Ukraine Conflict
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Abstrak

Konflik antara Rusia dan Ukraina mendorong harga gandum dunia mencapai puncak tertinggi dibandingkan dengan krisis pangan tahun 2008. Selain mengancam keberlangsungan berbagai negara yang masih mengandalkan komoditas impor, kondisi tersebut turut mempengaruhi perusahaan mie instan seperti PT. Indofood CBP. Penelitian ini menggunakan metode kualitatif dengan pendekatan Political and Security Risk Assessment, dengan fokus pada risiko politik yang disebabkan oleh masalah geopolitik (event risk) yang mempengaruhi kebijakan dan tindakan para aktor di Indonesia, terutama pemerintah (dynamic risk), hingga mempengaruhi aktivitas Divisi Noodle PT. Indofood CBP. Hasil penelitian menunjukkan bahwa sektor kinerja seperti risiko pasokan dan kegiatan operasional perusahaan cukup terpengaruh kenaikan harga gandum. Terungkap juga strategi yang dilakukan perusahaan yakni menaikkan harga produk mie instan serta beberapa strategi lainnya.

Kata Kunci:	Asesmen Risiko Politik, Divisi Noodle Indofood CBP; Geopolitik; Konflik Rusia-Ukraina
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Introduction

Russian President Vladimir Putin launched an invasion of Ukraine on February 24, 2022, resulting in the shutdown of several ports, including Odesa and Mariupol, due to damage inflicted by a received strike. interruptions in the supply chain have also occurred as a result of interruptions in the global maritime transportation system. The capacity of bulk carriers waiting in or near the area is rising. Bunkers' prices also rose, owing to the overall cost of transportation, both by land and sea (United Nations, 2022). By March 2022, the world wheat price reached *US\$1002/bushel*, which exceeded the benchmark price during the 2008 global food crisis of *US\$929/bushel* in the same month (Trading Economics, 2023). In addition, wheat has become a sensitive commodity in developing countries with high consumption power or countries that do not support growth. Governments also intervene to influence prices. Governments can subsidize wheat prices to keep food affordable. However, artificially lowering prices will lead to a further increase in demand and put more pressure on global prices. Therefore, the government can impose import tariffs on finished wheat products (Pettinger, 2022).

Ukraine alone accounts for 10% of wheat exports in world trade. Indonesia's inability to grow, harvest or deliver food supplies due to conflict exacerbates rising food prices and even triggers global hunger. As a result, the risks of political instability are experienced and foreseeable by the company's trading partner countries. Therefore, the company needs to monitor developments in order to maintain assets, workers including production activities (Randolph, 2022). Indonesia is one of the countries indirectly affected by the war, based on its grain imports from Ukraine. In 2021, Indonesia was the third largest wheat importer in the world. The country is known for its instant noodle industry, whose products have become a staple of both domestic and export consumption, but the raw materials for this industry still rely on imported wheat (Eurasia Group, 2022).

A group of economists from PT Bahana Sekuritas noted that 30% of Indonesia's imported wheat comes from Ukraine (Pratama, 2022). According to the Indonesian Wheat Flour Entrepreneurs Association (APTINDO), around 90% of wheat imports held by Indonesia are absorbed by the wheat flour industry and the rest by the animal feed industry (Yustianus Andri, 2019). Domestic noodle production dominates 70% of Indonesia's wheat flour consumption, with the remaining 20% used for the bakery industry and 10% for the cake, biscuit and household industries (Kingwell et al., 2018). Examining market absorption, it is known that in general, the sales coverage of instant noodles for the domestic market reaches more than 90%, while less than 10% is aimed at the export market (Fatima, 2018).

Based on related explanations, it can be seen that both the state and companies engaged in the food sector, one of which is instant noodle producers, still rely on imported wheat, one of which is PT Indofood CBP or previously known as the *Consumer Branded Products* group under the auspices of PT Indofood has been producing instant noodles since 1982 (Indofood CBP, n.d.).

It is known that wheat-based wheat flour, which is the basic material for PT Indofood CBP, is obtained from the Bogasari Group by PT Indofood, which drives the wheat milling business, at mutually agreed-upon prices. The Bogasari Group obtains wheat from domestic sources before processing it, with the majority of it imported from foreign nations (Tim Indofood CBP Sukses Makmur Tbk, 2021).

PT Indofood CBP is recognized for its reliance on imported raw materials facilitated through the Bogasari group. Despite assurances from wheat distribution companies regarding the availability of raw materials from Ukraine and domestic wheat sources, PT Indofood CBP cannot overly depend on domestic wheat suppliers due to the unpredictable conditions. Such unpredictability can impact the final products like instant noodles in terms of their composition, size, and market price. Notably, recent financial reports indicate a decline in profits for PT Indofood CBP, amounting to approximately 8%. Consequently, there is a pressing need for strategic efforts to ensure the stability of instant noodle production, distribution, and sales activities. This study aims to examine the factors contributing to the global increase in wheat prices, particularly during events such as the conflict between Russia and Ukraine. Furthermore, it seeks to understand the strategies implemented by PT Indofood CBP especially Noodle Division in response to political conflicts that affect the price and supply of essential raw materials for its products.

Methodology

Qualitative-descriptive techniques are applied in this research methodology. This method emphasizes an in-depth examination of a particular phenomenon, event, organization, region, country, or individual (Bakry, 2019). Besides, in terms of the data collection approach, a literature review can complement and generate ideas when summarizing research findings. Then the basic data for further analysis through in-depth interviews. So that the results obtained come from the field and are not engineered by researchers (Raco, 2018).

Conceptual Framework

Political Risk Assessment as a conceptual framework seen from the occurrence of political events that create risks for companies can arise from acts of revolution, coups, takeovers, taxation, devaluation, exchange rate controls, import restrictions, and wars that occur at home or abroad that cause the loss of potential profits and/or assets in business operations (Bremmer & Keat, 2009). A risk that provides a threat to the organization can be evaluated using the context of the underlying cause, specifically the main event (event-based risk) and supporting/dynamic events (dynamic risk). Unexpected events that harm stocks, businesses, and companies by causing losses for investors or internal stakeholders are referred to as event risk. Some external events, such as natural disasters or theft, can be mitigated by acquiring insurance that covers these risks. However, insurance cannot cover all risk-related situations (Hayes, 2022). Dynamic-based risk, stemming from pivotal occurrences like climate change, interest rate fluctuations, and geopolitical tensions, is intricately intertwined with the increasingly interconnected global landscape. As businesses rely on complex networks such as supply chains and information dissemination, uncertainties in geopolitics exert immense pressure. Moreover, the risk of unforeseen disruptions is compounded by various factors, including legislative alterations influenced by prevailing political dynamics (Jain et al., 2020).

According to Mackellar (2010), various firm assets, including human resources, are vulnerable to political risks. These dangers, when directed at individuals associated with a company's identity, dismissal, reputation, or performance, can lead to demoralization, trauma, harm, and even fatality. Unsubstantiated scandals, conflicting political interests, reluctance to engage political stakeholders, and inability to manage risk can damage a stakeholder's reputation. Although short-term effects on performance and reputation may seem minor, the long-term implications are significant. Asset risks are categorized into continuity and control, emphasizing operational stability achieved through effective hazard detection, avoidance, and mitigation in daily company operations (Mackellar, 2010).

Geopolitic as our focus of political risk in this case is difficult to predict and has wide-ranging consequences because it intersects with access to natural resources and conflict implications based on proximity to other countries (geographical factors); creating regulatory burdens, such as discriminating against the government through policy instruments, restricting foreign

investment, or allowing domestic industry to monopolize the market; and establishing expropriation because governments can conflate resources (Dehn & Everington, 2020).

The indirect effects of geopolitical events tend to be hidden but equally important to a company's business. Based on wider influence, political risks arise from geopolitical events such as major wars and the imposition of multilateral sanctions or military intervention. Either of these events can distribute power between countries as well as produce reverberation effects across markets (Rice & Zegart, 2018).

Discussion & Results

Production Flow of Indofood CBP from downstream to upstream

Indofood (INDF) is classified as Total Food Solutions that are involved in the entire production process, processing raw materials to the final product which is then distributed throughout the market network. 4 strategic business groups are shaded by Indofood to facilitate operational activities, starting from (PT. Indofood Sukses Makmur Tbk, 2022):

1. Branded Consumer Products/CBP: The CBP Group and other business activities underwent a realignment to become a subsidiary of INDF under the name Indofood CBP (ICBP) in 2009, and divides production activities into 5 divisions.
2. Bogasari Group: produces wheat flour and pasta supported by shipping and packaging business units. It consists of a flour division and a pasta division.
3. Agribusiness: supporting research and development activities, the process of breeding seeds, processing and cultivating oil palm to the production and marketing of margarine, shortening and cooking oil products (Edible oils and fats division)
4. Distribution: supported by the widest distribution network in Indonesia, this group is engaged in distributing most of the products produced by CBP and other subsidiaries, including various products from third parties.

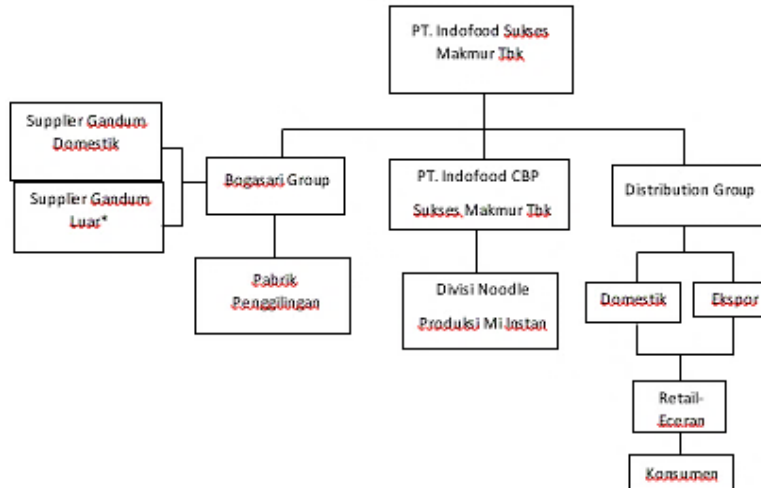
The wheat used is imported from countries like Canada, Australia, and the United States. With a private wharf for sea shipments, imported wheat is stored in dedicated bulk material storage areas, with each silo accommodating 3,000 tons and a total of 140 silos. Wheat is then distributed to 15 production lines based on various factors before milling. Approximately 75-78% of processed wheat meets standards, while the remaining 25% is utilized for animal feed and pellets (Tiofani & Agmasari, 2022).

Bogasari Group imported around 3.5-4 million tons of wheat or 50% of the national wheat imports, namely 7 million tons and the remainder was divided equally among 28 companies in 2015. Franciscus Welirang revealed the total imported wheat received, 60% - 70% is processed as instant noodles while 20%-30% is distributed to the bakery industry and 10%-20% to make biscuits (Tobing & Sinaga, 2015). Until 2017, the company had imported 4.78 million tonnes of wheat or around more than US\$1 billion (Wijayanto, 2022). This activity shows the high dependency of the Bogasari Group on imported wheat, most of which will be produced into instant noodles by Indofood CBP.

Indofood CBP applies a contract system for raw materials such as cartons and packaging based on price and quantity contract forms in accordance with a predetermined agreement. For the term of the local supplier contract, it is valid for 3 months (per quarter) (Anggraini, 2022a). The distribution of wheat flour is not bound in the form of a special contract. This is because the main raw materials for instant noodles, which is wheat flour and oil, follow the price movements that occur on the world market, which can change every month. However, as a sister company, the price for the raw materials supplied to the division is lower than the selling price (Anggraini, 2022b).

The 2021 Annual Report of Indofood CBP reveals numerous transactions conducted with a controlling entity, particularly involving raw material purchases and sales. ICBP procures wheat flour from Bogasari-Indofood Group at an agreed price, ensuring it does not exceed prices to other third parties. Additionally, cooking oil and vegetable fats are purchased from Salim Ivomas Pratama (SIMP) based on market rates. Finished product sales adhere to distribution agreements, notably with Indomarco Adi Prima (IAP), at agreed prices.

Figure 1 - Supply Chain Indofood to the Noodle Division of Indofood



Source: from various sources processed and adapted by the authors

For international wheat suppliers (see Table 1), apart from importing from various countries, it is known that the percentage of the company's wheat purchases is from Sojitz Asia Pte. Ltd., Singapore (Sojitz) from 2020 to 2021 has increased to 13.95% (PT. Indofood CBP Sukses Makmur Tbk, 2022).

Table 1 - Indofood Overseas Wheat Supplier

Overseas Wheat Supplier		
No.	Countries	Sources
1	USA	(Anggraeni, 2019)
2	Canada	
3	Australia	
4	Argentina	
5	Ukraine	
6	Russia	
7	France	
8	Peru	(Tim Redaksi CNBC Indonesia, 2022b)
9	India	(Yustinus Andri, 2022)
10	Brazil	
11	China	(Tim Detik Finance, 2013)
12	Other European countries	

Sources: from various sources processed and adapted by the authors

Of those countries, India has become a country that is concentrating with Russia and Ukraine in supplying agricultural inputs. Until the local government started raising fertilizer subsidies due to import prices. Coinciding with the rise in import costs, Indian food prices rose 8.4% yoy in April 2022. As one of the world's grain producers, Indian grain exports reached 7.8 million tons in the period 2021-March 2022 or estimated to be the highest of all time. However, the heat wave caused agricultural yields to decline by an estimated 105 million tons or less than 6 million tons from Southeast Asia (Eurasia Group, 2022).

Not to mention Australia, which is geographically closer to Indonesia and has lower logistics costs, but has high wheat prices. Due to the failure of the Australian harvest in 2019 followed by Canada, the United States and Russia from 2020 to 2021 due to weather disturbances, Indonesia has begun importing about 3 million tons of grain from Ukraine every year, because it has lower prices. In addition to the harvest failure that caused the price of wheat to rise on the world market, the rise in logistics costs during the COVID-19 pandemic also worsened the situation (Nupus & Huaxia, 2022).

The blockade of supplier areas especially Russia-Ukraine undoubtedly blocks the flow of the country's supply chain, especially the business sector. Problems in the geopolitical sphere can be one of the factors affecting the smooth flow of the supply chain; these external disruptions will create a series of risks in the supply, operational, and demand sectors, which, if untreated, will cause other, more complex problems, up to production failures. This incapacity also has an impact on efforts to address society's growing wants.

On the other hand, Indonesia is one of the countries in Southeast Asia that was affected by the conflict, 30% of wheat imported by Indonesia came from Ukraine (Pratama, 2022). Franciscus Welirang who is also the General Chairperson of the Indonesian Wheat Flour Entrepreneurs Association (APTINDO) revealed that around 90% of national wheat imports are absorbed by the wheat flour industry and the remainder for the animal feed industry (Yustianus Andri, 2019).

War can hinder commercial operations on one side or in a conflict zone without fostering bitter hatred on the other. This investigates the existence of the corporation and production factory for the "Indomie" brand issued by Indofood CBP, which is in many countries that also rely on wheat from Russia and Ukraine. Since July 2022, Ukraine has delivered 11.1 million tons of agricultural products, including 3.2 million tons of wheat, as part of the Black Sea Grain Initiative. As of August 1, more than 450 ships have left Ukraine, transporting 11 million tons

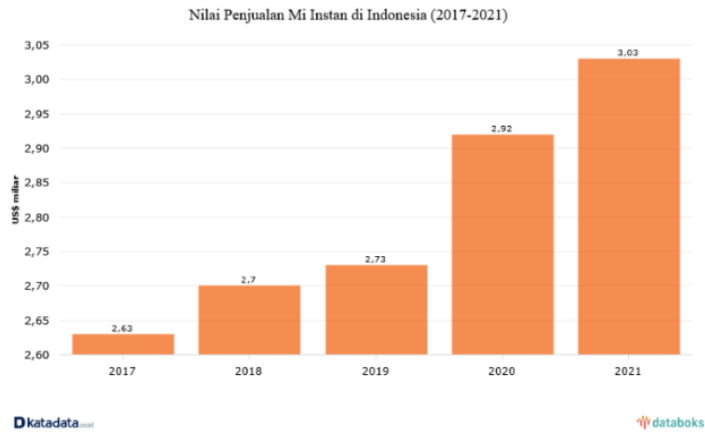
of Ukrainian grain and other supplies around the world (Nichols, 2022). The realization of the Black Sea Grain Initiative shows a collective effort to improve the potential for food crises, humanitarian disasters and protect trade routes during the war between Russia and Ukraine bridged by the United Nations and Turkey, which is known as one of the largest wheat importing countries in the world. This certainly reduces the burden on various countries including Indonesia which rely on Ukrainian and Russian wheat.

Even though the international resolution has been prolonged, it does not ensure global food price stability. Because the Russian side can withdraw from the initiative at any time, whereas if the Black Sea Grain Initiatives function smoothly, the price of wheat could rise again if there is no attempt are made to prolong the duration. Because of the impact of this geopolitical dilemma, many nations, including Indonesia, have returned to a condition of food insecurity, especially because Russia's relationship with Ukraine shows no signs of ending the conflict.

In 2021, the Indonesian people to have spent 13,270 million packets of instant noodles, or an increase of 630 million compared to 2020 (World Instant Noodles Association (WINA), 2022). Indonesia's instant noodle sales figures are considered to have increased (see Figure 2) during 2017-2021 based on all domestically produced instant noodle brands. From US\$2.63 billion in 2017, it increased to US\$2.92 billion in 2020, and up to US\$3.03 billion in 2021 (Pahlevi, 2022a).

The increase in instant noodle consumption demonstrates the great demand for instant noodles among Indonesians and has the potential to increase in the coming year. Although instant noodle prices have risen in the past, the possible increase this time is being driven by a disagreement between the world's two largest wheat-producing countries and one of the primary domestic wheat suppliers, namely Ukraine and Russia. This is what drives the government, including instant noodle companies, to preserve wheat supplies, including existing wheat flour, manufacturing capacity, and the need for new suppliers to obtain wheat imports against global market instability.

Figure 2 - Graph of Sales Value of Instant Noodles in Indonesia (2017-2021)



Source: (Pahlevi, 2022a)

The attention paid to instant noodles has made them a benchmark for inflation in Indonesia. Airlangga Hartanto, Indonesia's Coordinating Minister for the Economy, stated instant noodles, especially the Indomie are national food that has affordable prices and are loved by people who have an average monthly salary of around US\$200 or IDR 2.97 million. With the increase in the consumption power of instant noodles and the retail price of the product reflecting the increase in the value tax since April, actors are monitoring the price developments of instant noodles. Indomie's selling price has reached an average of IDR 2,800 (Jibiki, 2022).

Since April 1, the Indonesian government has implemented a new value-added tax (VAT) of 11% on several goods and services. Even though it is not classified as a basic food commodity, instant noodles are included in the VAT-affected product because it has been consumed by almost the entire community. This causes the price of instant noodles to increase by IDR 25. Even though the increase is considered small, Yustinus Prastowo, Special Staff to the Minister of Finance said that if it is multiplied on a large scale throughout Indonesia, it will produce a relevant amount (Tim Redaksi CNBC Indonesia, 2022a).

The Central Statistics Agency (BPS) data indicates that the price of instant dry noodles increased by 10.58% in August 2022 compared to the same month last year. In that same month, the price of instant noodles reached IDR 2,916/pack, whereas it was IDR 2,692/pack in the previous period. Despite denying the potential increase in related product prices, representatives from Indofood and Indofood CBP, Fransiscus Welirang, acknowledged that the price of the "Indomie" brand instant noodles followed the trend of rising prices due to increased wheat and flour costs. Notably, the price of "Indomie" increased twice, specifically in March and end of June, although the exact price range was not specified. Other producers also

contribute to price increases, creating competition for consumers' choices (Andi & Handoyo, 2022). In general, the average price of local instant noodles, including the production of Indofood CBP per pack in Indonesia starts from IDR 2500-3100.

The present increase in the price of instant noodles, according to Ratna Sari Lopis, Executive Director of the Indonesian Wheat Flour Producers Association (Aptindo), cannot be separated from the increase in the price of wheat derivative products, including wheat flour. Domestic demand for wheat flour reached 3.34 million metric tons in January-June 2022, equivalent to 4.3 million metric tons of wheat (Andi & Handoyo, 2022).

Political Risk Impact on Indofood CBP Noodle Division

People

When compared to the ongoing crisis between Russia and Ukraine, the Covid-19 pandemic that impacted numerous nations like Indonesia is thought to have had a greater impact on company activities, particularly the Noodle Division. Because of the reduced workforce, various new modifications were made, including changes in working hours and the adoption of specific screening before entering the workplace. Nonetheless, no active factories have been closed during the pandemic or since (Anggraini, 2022a). The corporation still promises the granting of rights, including raising employee compensation when product and raw material prices rise. This is possible if the company does not encounter disruption in the performance area, particularly from a financial standpoint. The corporation is still relatively robust financially. Unless raw material price increases impact power performance, the company's employees will be immediately disrupted (Anggraini, 2022b). The Covid-19 epidemic is said to have had a significant impact in terms of manufacturing and human resource management, including sales. However, when compared to the contemporary issues produced by global wars. Indofood CBP's Noodle Division labor continues to secure rights and guarantees from the corporation.

Reputation

Amid a pandemic problem that has quite disrupted the company's distribution activities and instant noodle products with the Indomie brand have managed to score several awards. In 2021, Indomie Mi Goreng BBQ Chicken won the best saucy instant noodle accompanied by Indomie Mi Goreng Original at 10th place out of 31 instant noodles based on the Los Angeles Times

(Sandi, 2022). The instant noodle brand "Indomie" also won 7th position with a reach of 2.2 billion CRP (Consumer Reach Points) from the 10 Most Popular FMCG (Fast Moving Consumer Goods) Brands on a global scale based on Kantar's research results entitled Global Brand Footprint 2021 (Annur, 2021). In addition, Indomie Mi Goreng won first place followed by Indomie Mi Goreng BBQ in The Best Saucy Instant Noodle based on the evaluation of experts and contributors in the food sector according to the Strategist's version (Leimkuhler, 2022).

As of 2022, various disruptions have affected trade, wheat production, energy, and vegetable oils like CPO, leading to price hikes in these commodities and adjustments to Indofood CBP's instant noodles' costs. Despite challenges, the company maintains its position, driven by Indomie's strong domestic and international reputation. According to Frontier Group's Top Brand Index, Indomie secured 72.9% of the vote in 2022 (Angelia, 2022).

Figure 3 - 5 Brands of Instant Noodles of Indonesian People's Choice



Source: (Angelia, 2022)

During rising prices for instant noodle products, various brands from other companies, including the production of Indofood CBP. The instant noodle brand again won the highest ranking in the Brand Footprint Indonesia 2022 for the Top Five FMCG Chosen in the instant noodle category and won the 8th position in the global ranking (The Jakarta Post, 2022). Furthermore, Franky left the final decision to the public to buy the instant noodle products they wanted at the price they thought appropriate for their needs. He noted that the price of wheat, which is used as a raw material in instant noodles, has lately fallen compared to the previous few months, therefore there is a favourable anticipation for sales of producers in related industries (Andi & Handoyo, 2022).

However, there was an issue with the chilli powder content in the instant noodles produced by Salim Wazaeen Abu Alata Ltd (SAWATA) in Egypt; the local production company responded quickly by withdrawing all products containing the relevant ingredients and offering products that did not contain chilli powder (Ahram Online, 2022). Seasoning content issues do not simply occur at linked companies. The Taiwan Department of Health and Welfare has determined that "Indomie Rasa Ayam Special" produced by ICBP contains ethylene oxide or a chemical associated with lymphoma. As a result, the instant noodle variation was withdrawn from the market. Taufik Wiraatmadja as a Director of ICBP emphasized that Indomie products are safe for consumption because they have been processed according to the Codex Standard for Instant Noodle food safety standards, including national food standards such as BPOM and have Indonesian National Standard Certification (Timorria, 2023).

Indomie, a brand of instant noodle products, has bolstered Indofood and Indofood CBP's positive reputation both domestically and globally. Despite price increases during the epidemic, Indomie has retained its purchasing power and strong image. Core Indonesian companies and international production firms must regularly verify product compounds to uphold Indomie's reputation

Performance

The performance sector which is affected by risk in the short term will certainly not show critical problems. However, looking at the long term, this risk will cause a heavy impact and influence on the company because it affects the continuity of production-distribution capabilities and the company's control in maintaining ownership and the influence of political pressure received.

Supply Risk

Apart from flour, it is important to know that the core ingredient of instant noodles is cooking oil. In rising cooking oil prices, Franky Welirang sees this as a domino effect of the soaring price on the world market. Reviewing the existence of Bimoli products under the auspices of the Salim Group which also accommodates Indofood does not even produce and distribute bulk cooking oil. Currently, the related companies also do not export cooking oil and only distribute it to industry and branded products. He even mentioned that the cause of the scarcity of oil was when the price of cooking oil was set to be cheap so that many sellers could not trade it (Emeria, 2022).

Moreover, Bogasari Group serves as a wheat and flour supplier to Indofood CBP. In 2021, Bogasari Group Cibitung introduced its flour production lines, Mill C and Mill D, each capable of grinding 750 tons of wheat daily, totaling 2,600 tons of flour production. Additionally, Wheat Silo C at the Tanjung Priok branch, with a capacity of 36,000 tons. The Bogasari Group operates 15 mills across Indonesia (Bogasari, n.d.).

As a result of the rise in vegetable oil and wheat prices, the company experienced a minor rise in oil prices, because the price of the oil obtained was defined by an agreement between the two parties. However, this does not indicate that the company is not experiencing supply issues, because the basic pricing still follows the global market rotation. Therefore, the authors categorize the influence as medium/moderately affected (medium).

Operational Risk

The distribution sector, especially the Noodle Division of Indofood CBP is more affected by the disruption created by the pandemic than the current geopolitical problems. During the pandemic, there was a scarcity of containers to transport instant noodle products to foreign markets, especially when China implemented a lockdown and the high number of exposed workers, this hampered the flow of shipments including increasing freight costs (Anggraini, 2022a).

The impacts of the conflict in Ukraine, on the other hand, allow for additional interruption of the supply chain. This is what drives up global shipping prices and their downstream impacts over time. The rise in material prices, particularly energy and coal costs to power manufacturing plants, as well as fuel, influenced the selling price. This explores the production and distribution expenses that enterprises must bear, particularly for export items, as a result of freight cost changes and the government's imposition of higher gasoline prices (Anggraini, 2022b).

It is also known that in addition to burdening the distributors, Indofood CBP also bears the burden of transportation costs for distribution including exports which can now increase again. In distribution activities, especially for exports, companies are known to apply free-on-board (FOB) and cost, insurance, and freight (CIF). In the FOB application, product distribution costs including searching for ships are borne by the distributor. As for CIF, it is the company that bears the distribution costs including the search for land and sea transportation (Anggraini, 2022b).

In addition to rising fuel prices, the implementation of Zero ODOL has the potential to affect the condition of the food sector industry. Josafat Siregar, Special Staff of Aptindo, represented the request regarding the postponement of the policy. Based on a review by Aptindo in July 2022 regarding the national wheat flour transport capacity, 436,243 trucks (ankle, colt, etc) are needed to transport around 6.7 million metric tons of flour. While the cost of transport reaches IDR 950.9 billion with a diesel absorption capacity of approximately 9.24 million litres with a total state subsidy of IDR79 billion. Meanwhile, the implementation of Zero ODOL allows for a high increase in the number of transports, as well as transportation costs, absorption capacity and fuel costs including the need for subsidies which make the burden of transporting goods borne by consumers. So he considered the policy not appropriate to implement (Marzuqi, 2022).

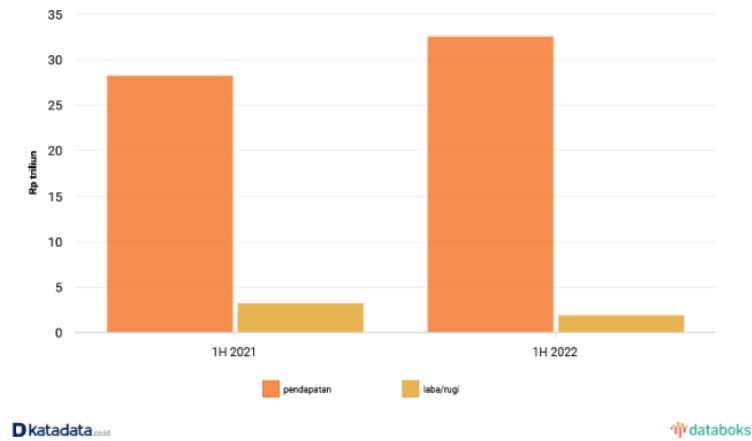
Companies considered the related expenses as an element of pricing for instant noodle products based on the phenomenon of increasing freight transportation costs in the implementation of CIF and the fuel costs being pushed up by the government which was affected by the incident in the Black Sea. Especially when raw goods such as packaging, especially wheat, continue to be imported and are directly influenced by the increase. As a result, the authors categorize the impact of operational risk on production and distribution activities as medium/moderately influenced (medium).

Demand Risk

Regarding the demand for instant noodle products, Indofood CBP, the highest demand for instant noodles occurred at the beginning of the pandemic due to the high demand from the public during the lockdown. However, this condition is starting to stabilize considering that various regions and countries have stopped implementing lockdown (Anggraini, 2022a). During the pandemic, the subsidiary experienced a 20% growth in export sales of instant noodles until June 2020. This contribution was accompanied by an increase in total sales of instant noodles by 12% compared to the 2019 period, which was 10% (Firdaus, 2020). During 2021, ICBP's Noodle Division posted total instant noodle sales figures of IDR 40.99 trillion, an increase of 28% which was supported by an increase in domestic sales volume including in foreign markets (exports) (Susanti & Setiyadi, 2022). In the first quarter of 2022 (see Figure 4), Indofood CBP experienced an increase in overall product sales figures from various divisions of IDR 32.6 trillion or an increase of IDR 4.4 trillion. However, with

the increase in the cost of goods and deducted by other costs, the net profit was 1.93 trillion, down 1.29 trillion compared to last year.

Figure 4 - Revenue and Profit/Loss of Indofood CBP Period January-June/semester I 2021-2022



Source: (Pahlevi, 2022b)

Indofood CBP also recorded sales results reaching IDR 4.68 trillion for instant noodle sales of IDR 23.5 trillion in the first semester of 2022 or during January-June 2022. Sales of this product are the highest compared to other products produced by the company. According to a report by the Indonesian Wheat Flour Producers Association, the peak in world wheat price increases occurred in May 2022, touching US\$522 per tons. The surge that occurred by 76% has been felt domestically as of August 2022 (Komalasari, 2022). Therefore, commodity prices also escalated during the ongoing conflict between Russia and Ukraine. Anthoni Salim as Main Director of Indofood CBP said that this was one of the factors causing ICBP's operating profit to erode in August by 8% or to IDR 5.88 trillion from the previous IDR 6.36 trillion, especially wheat, which is the core raw material for instant noodle products. Another factor that supports this condition is that there is a loss from the difference in the exchange rate of the Indonesian rupiah against the US dollar that has not been realized in funding activities (Komalasari, 2022).

The Ministry of Industry stated that in the I-II quarter of 2022, exports of products from the domestic food and beverage industry increased to 3.68% from the same period last year, which was 2.95%. The industrial sector has also attracted investment of IDR 21.9 trillion and absorbed a workforce of 1.1 million people in the same period. One of the influential production companies in this sector is Indofood CBP with Indomie branded instant noodle

products. Indomie is one of the dominant instant food products that contributes to the country's income, it is known that it currently occupies 70% of the market share in the export sector (Sandi, 2022).

At the end of the third quarter of 2022, ICBP posted a decrease in net profit of 33.46% yoy to IDR 3.3 trillion, even though operating profit increased to IDR 9.55 trillion from the previous IDR 8.82 trillion. 60-70% of instant noodle sales are still a contributor to the company's revenue (Situmorang, 2023). Likewise, the consolidated net sales sector increased to IDR 48.91 trillion by the end of September 2022, an increase of around 6% yoy (Desfika, 2022). Whereas in the fourth quarter, ICBP recorded a net profit of IDR 1.3 trillion which made the total net profit for the full year in 2022 IDR 4.6 trillion or a decrease of 28.3% yoy. It is known that the company again slightly increased the price of its products and instant noodles became the company's main profit driver at that time (Rahmawati, 2023).

Despite this, it should be highlighted that Indofood CBP saw an 8% loss in net profit in August and a total decrease in 2022 profit of 28.3% compared to the previous year owing to increases in expenses such as raw materials and other costs. Referring to an increase in sales or demand that continues to be high despite rising product costs, instant noodles are once again the largest contributor to Indofood CBP's firm profits. The impact of demand risk on the company is low, reflecting the company's production and sales management capabilities and results.

Conclusion

Based on this circumstance, the author concludes that disruptions in global markets during geopolitical crises have a moderate impact on supply risk and operational risk, two crucial areas of Indofood CBP performance. Overall, this is represented in the rise in instant corn prices and the reduction in net sales profits from domestic, export, and worldwide sales, which are the result of rising commodity prices, including distribution expenses. Because it is difficult to foresee price swings in global markets, the issue this time is exacerbated by a conflict between two countries outside the region that are also the world's major grain producers. Conditions for implementing domestic policy to address domestic problems, such as the imposition of 11% VAT on instantaneous products, increase in BBM prices, and the implementation of zero ODOL, may increase the cost of wheat distribution, including instant noodles, reducing the company's profits in the future. The writers obtain some of the tactics used by the CBP's Noodle

Indofood Division. In addition to raising the price of instant noodles, they face political concerns related to the geopolitical situation and the implementation of new domestic rules. So some other strategies that are carried out are:

1. Inventory buffer system: various divisions can modify raw material storage time/lead time and supplier delivery time/frequency. ICBP's Noodle Division implements wheat stocks, whereas Bogasari implements whole grain stocks through grain silo ownership as a strategy in response to global market price swings.
2. Supplier diversification: Indofood firms are collaborating with the government and other producers to broaden the scope of wheat imports from 30 other nations (Tim Redaksi CNBC Indonesia, 2022b).
3. Improving production performance: Indofood CBP's Noodle Division increased production performance by lowering manufacturing costs, allowing the firm to continue providing instant noodle products at competitive prices while maintaining quality in the face of continual price increases.
4. Diversion of wheat raw materials to be combined with sorghum seeds. Indofood will collaborate with the Ministry of Agriculture to develop sorghum-based quick noodles to replace imported wheat. However, based on testing findings, sorghum-based noodle dough must still contain 70-80% wheat (Theodora, 2022).

Based on these findings, the author can provide several recommendations, starting from:

1. Reduce dependency on imported food through constant and long-term partnerships between parties. As an implementation of the Inclusive Closed Loop Model (axtonsalm, 2022), the company has approached actors such as farmers, developing research related to food growth, including the transition of raw materials. However, the aspect of consistency and sustainability should be improved among the parties.
2. To maintain product quality and avoid difficulties with the company's image, it is necessary to verify the constituents of the substances contained in the product and revitalize the machinery, including paying attention to the company's interaction with internal and external suppliers on a regular basis.
3. Adapting political risk assessment to monitor the development of scenarios that could potentially destabilize global market prices. The impact on business is an increase in commodity costs such as raw materials and transportation costs, which then increases the price of products that must be borne by customers, as happened during the Russia-Ukraine conflict.

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